

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF SANITATION)	
DISTRICT NO. 1 OF MARSHALL)	
COUNTY, KENTUCKY FOR AN ADJUST-)	
MENT OF RATES PURSUANT TO THE)	CASE NO. 8918
ALTERNATIVE PROCEDURE FOR SMALL)	
UTILITIES)	

O R D E R

On November 17, 1983, Sanitation District No. 1 of Marshall County, Kentucky, ("Sanitation District No. 1") filed an application with the Commission to increase its sewer rates pursuant to 807 KAR 5:076. This regulation allows utilities with 400 or fewer customers or \$200,000 or less gross annual revenues to use the alternative rate filing method ("ARF") in order to minimize the necessity for formal hearings, to reduce filing requirements and to shorten the time between the application and the Commission's final Order. This procedure should minimize rate case expenses to the utility and, therefore, should result in lower rates to the ratepayers.

Sanitation District No. 1 requested rates which would produce an annual increase of \$5,412 from its 29 customers. In this Order, the Commission has allowed the requested rates producing an increase of \$5,412.

There were no intervenors in this matter, and all information requested by the Commission has been submitted.

TEST PERIOD

For the purpose of determining the reasonableness of the proposed rates, the 12-month period ending December 31, 1982, has been accepted as the test period.

REVENUES AND EXPENSES

Sanitation District No. 1 incurred a net loss for the test period of \$2,774. Sanitation District No. 1 proposed several pro forma adjustments to its test period operating revenues and expenses to reflect current operating conditions more accurately. The Commission finds these adjustments reasonable and has accepted them for rate-making purposes with the following exceptions:

Operating Revenues

The 1982 annual report of Sanitation District No. 1 showed total operating revenues of \$20,763. In its application, Sanitation District No. 1 made an adjustment of \$1,704 to normalize its test year revenues. Based on the billing information submitted by Sanitation District No. 1, the Commission finds that the correct adjustment is \$1,932 resulting in normalized test year revenues of \$22,695. The increase required by Sanitation District No. 1 to produce the requested annual revenues of \$28,107 is, therefore, \$5,412.

Chemicals

Sanitation District No. 1's pro forma test year expenses included \$473 for chemicals. P B and S Chemical Company invoice No. 259281/ in the amount of \$136 shows that a cylinder of chlorine was purchased by Sanitation District No. 1 during the month of December, 1981, or prior to the test period, and this

cost was inappropriately included in test year expenses. Therefore, the Commission has reduced chemical expense by \$136.

Insurance Expense

Sanitation District No. 1 projected insurance expense for the test period of \$951. A vendor invoice of Morgan, Trevathan and Gunn, Inc., dated November 11, 1983,^{2/} evidenced that the current insurance premium of Sanitation District No. 1 will be \$1,020. The Commission has found it appropriate to increase insurance expense by \$69.

Depreciation Expense

Sanitation District No. 1 recorded depreciation expense for the test period of \$1,440. The Commission has reduced depreciation expense in accordance with its policy that depreciation should be computed on the basis of original cost of the plant in service less contributions in aid of construction. The Commission is of the opinion that it is unfair to require ratepayers to provide recovery on that portion of the plant provided free of cost. Therefore, the Commission finds that depreciation expense should be reduced for rate-making purposes by \$207.^{3/} Thus, the Commission finds that the appropriate adjusted test period depreciation expense is \$1,233.

Excess Capacity

The Commission considered an adjustment to reduce the pro forma operating expenses of Sanitation District No. 1 related to excess capacity in its sewer system. It was established in the record of evidence that the capacity of the sewage treatment plant is 210,000 gallons per day ("GPD")^{4/} and that the present demand

on the system is approximately 77,630 GPD.^{5/} The sewer system was designed to provide service to approximately 59 residential and non-residential customers, including Kenlake State Park. Currently, Sanitation District No. 1 has 29 customers. The Commission is of the opinion that an adjustment to the operating expenses of Sanitation District No. 1 related to excess capacity in the sewer system is not sufficient to reduce the increase in rates granted herein. This is because the adjustment would only be approximately \$1,491^{6/}, and the rates requested by Sanitation District No. 1 produce insufficient operating income to meet the debt service requirements of its lender, the Farmer's Home Administration ("FmHA").

Therefore, Sanitation District No. 1's adjusted operations at the end of the test period are as follows:

	Sanitation District No. 1 <u>Adjusted</u>	Commission <u>Adjustments</u>	Commission <u>Adjusted</u>
Operating Revenues	\$ 20,763	\$ 1,932	\$ 22,695
Operating Expenses	<u>25,514</u>	<u>(274)</u>	<u>25,240</u>
Operating Income	\$ (4,751)	\$ 2,206	\$ (2,545)

REVENUE REQUIREMENTS

The Commission is of the opinion that the operating loss is unfair, unjust and unreasonable. Sanitation District No. 1's annual debt service requirement to FmHA is \$4,080.^{7/} Therefore, the Commission is of the opinion that the proposed rates should be approved as the additional revenues of \$5,412 generated by the proposed rates will produce a debt service coverage of .70x^{8/} which will allow Sanitation District No. 1 to pay its operating expenses and improve its financial position.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates in Appendix A are the fair, just and reasonable rates to charge for sewer service rendered to the customers of Sanitation District No. 1 and should produce annual revenues of approximately \$28,107.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are approved as the fair, just and reasonable rates to be charged by Sanitation District No. 1 for sewer service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that, within 30 days of the date of this Order, Sanitation District No. 1 shall file with this Commission its tariff sheets setting forth the rates approved herein and a copy of its rules and regulations for providing sewer service.

Done at Frankfort, Kentucky, this 13th day of January, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

FOOTNOTES

1. Information filed in response to the Commission's Order, November 17, 1983.

2. Ibid.

3. Calculation:

Gross plant in service	\$982,452
Less: Contributions in aid of construction	<u>908,604</u>
Net depreciable plant in service	\$ 73,848
X Composite depreciation rate	<u>1.67%</u>
Allowable depreciation expense	\$ 1,233
Depreciation expense per books	<u>1,440</u>
Adjustment	<u>\$ (207)</u>

4. Ibid.

5. Order in Case No. 7933 of Sanitation District No. 1 dated January 23, 1981.

6. Calculation:

Depreciation Expense	\$ 1,233
Interest Expense	<u>3,499</u>
	\$ 4,732
% Excess Capacity +	<u>X 31.5%</u>
Total	\$ 1,491

7. Information filed in response to the Commission's Order, November 17, 1983.

8. Calculation:

Annual Increase	\$ 5,412
Adjusted Operating Loss	<u>(2,545)</u>
Operating Income Available for Debt Service	\$ 2,867
+ Annual Debt Service	<u>4,080</u>
DSC	.7X

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8918 DATED JANUARY 13,
1984.

The following rates are prescribed for customers served by Sanitation District No. 1 of Marshall County. All rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

<u>CUSTOMER CLASSIFICATION</u>	<u>MONTHLY RATE</u>
Residential	\$ 10.00
Commercial	21.25
State Resort Park	175.00